

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ADP-00 NSC-04 NSCE-00 TRSE-00 FRB-03

INR-01 RSC-01 RSR-01 CIEP-01 /020 W
----- 102368

R 201756 Z MAR 73
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9844
INFO USMISSION EC BRUSSELS
AMEMBASSY BONN
AMEMBASSY PARIS
USMISSION OECD PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 03304

LIMDIS GREENBACK

PASS TREASURY FOR S. Y. CROSS

E. O. 11652: XGDS

TAGS: EFIN, UK

SUBJECT: UK POSITION ON C-20 MEETINGS

1. CONTACT IN UKTREASURY HAS MADE AVAILABLE TO
TREASURY ATTACHE COPY OF UK PAPER ON THE ADJUSTMENT
PROCESS AND USE OF QUANTITATIVE INDICATORS. BRITISH
EXPLAIN PAPER AS FOLLOWS:
2. QUOTE: OUR AIM WAS TO PRODUCE A CONSTRUCTIVE
RESPONSE TO THE US PAPER ON THE ADJUSTMENT PROCESS WITH-
OUT, HOWEVER, GLOSSING OVER THE IMPORTANT POINTS OF
DIFFERENCE WHICH APPEAR TO EXIST BETWEEN THE US AND THE
EEC. WHAT WE HOPE THE PAPER DOES IS NOT TO DESCRIBE
OUR OWN ATTITUDE TO THE US PROPOSALS, BUT TO SET OUT A
BASIS FOR A EUROPEAN POSITION IN A NEGOTIATION WITH THE
US. WE HAVE NOT THOUGHT IT WISE AT THIS STAGE TO GO
INTO THE TECHNICAL ARGUMENTS ABOUT VARIOUS QUANTITATIVE
INDICATORS. WE BELIEVE THAT, IF AN EFFECTIVE DIALOGUE
CAN BE LAUNCHED WITH THE US TO RESOLVE THE PRINCIPAL
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DIFFERENCES BETWEEN US, SOME OF THE TECHNICAL DISAGREEMENTS WILL FALL AWAY.

3. IN ITS COMPOSITION THE PAPER ADHERES FAIRLY CLOSELY TO ITS TITLE, ALTHOUGH THE FIRST SECTION ("GENERAL CONSIDERATIONS") DOES TOUCH ON SOME WIDER ASPECTS. WE HAVE FOUND IT CONVENIENT TO MAKE A SLIGHTLY ARTIFICIAL DISTINCTION BETWEEN THE USE OF INDICATORS TO INITIATE THE CONSULTATIONS PROCESS AND THEIR USE AS POINTING TO A NEED FOR ADJUSTMENT ACTION. THIS DOES NOT MEAN THAT WE ENVISAGE TWO SEPARATE PROCESSES BUT RATHER THAT WE SEE THE BEGINNING OF CONSULTATION AND THE DISCUSSION OF ACTION AS TWO STAGES IN A CONTINUOUS PROCEDURE; IT APPEARS TO US THAT DIFFERENT QUALITIES ARE REQUIRED FROM THE INDICATORS AT EACH STAGE.

4. WITH REGARD TO THE CONCLUSIONS TO WHICH THE TWO LAST SECTIONS OF THE PAPER COME, YOU WILL SEE THAT WE BELIEVE THAT RESERVE MOVEMENTS COULD PLAY A USEFUL AUXILIARY ROLE IN SETTING THE CONSULTATIONS PROCEDURE IN MOTION - MAINLY BECAUSE OF THEIR SPEED OF AVAILABILITY AND SIMPLICITY. ON THE OTHER HAND, SO FAR AS THE CREATION OF A PRESCRIPTION FOR ACTION IS CONCERNED, THERE IS A STRONG CASE FOR USING THE BASIC BALANCE AS THE LEADING INDICATOR ALTHOUGH OTHER INDICATORS - INCLUDING RESERVE MOVEMENTS - WOULD ALSO HAVE TO BE TAKEN INTO ACCOUNT. THIS WILL BE ALL THE MORE NECESSARY AS THE PARTICIPANTS IN A CONSULTATION WILL NOT ONLY BE DISCUSSING THE NEED FOR ADJUSTMENT ACTION BUT ALSO TO SOME EXTENT THE KIND OF ADJUSTMENT ACTION WHICH SEEMS APPROPRIATE.

5. THE PAPER TAKES NO SPECIFIC ACCOUNT OF RECENT MARKET DISTURBANCES AND EXCHANGE RATE CHANGES. WHATEVER DOUBTS THESE EVENTS MAY CAST ON THE PRESENT EFFECTIVENESS OF THE ADJUSTMENT PROCESS IN A SYSTEM OF FIXED BUT ADJUSTABLE EXCHANGE RATES, THEY SEEM TO US TO EMPHASIZE THE NEED FOR A SUCCESSFUL OUTCOME, AS SOON AS POSSIBLE, TO THE DELIBERATIONS OF THE COMMITTEE OF 20. THE PAPER ASSUMES THAT THE OBJECTIVES OUTLINED AT THE SUMMIT LAST OCTOBER REMAIN VALID FOR LONG- TERM REFORM. UNQUOTE

6. PAPER WAS DRAFTED BY BANK OF ENGLAND AND UKTREASURY AFTER CONSULTATION WITH THE DUTCH. COMPLETE TEXT SENT REGISTERED FPO AIRMAIL DIRECTLY TO S. Y. CROSS,
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TREASURY- OASIA. WE UNDERSTAND TONY

RAWLINSON MAY ALSO HAVE COPIES AVAILABLE IN WASHINGTON.
TWO OTHER PAPERS ARE IN PREPARATION, ONE BY OORT
NETHERLANDS ON ASSET SETTLEMENT, THE OTHER BY
COMMITTEE OF EC CENTRAL BANKERS ON MULTI- CURRENCY
INTERVENTION.

7. ON OTHER POINTS, UK HAS ASKED MORSE TO SUGGEST
SETTING UP TWO WORKING PARTIES, ONE TO BE CHAIRED BY
BOB SOLOMON IN US ON THE ADJUSTMENT PROCESS, WITH
DELEGATES, MEMBERSHIP TO BE US, UK, TWO CONTINENTAL
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ACTION EB-04

INFO OCT-01 SS-04 ADP-00 NSC-04 NSCE-00 TRSE-00 FRB-03

INR-01 CIEP-01 RSC-01 RSR-01 /020 W
----- 102390

R 201756 Z MAR 73
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9845
INFO USMISSION EC BRUSSELS
AMEMBASSY BONN
AMEMBASSY PARIS
USMISSION OECD PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 02 OF 02 LONDON 03304

LIMDIS GREENBACK

EUROPEANS, JAPAN, AND AN LDC. OTHER WORKING GROUP
WOULD BE ON CAPITAL MOVEMENTS, TO BE CHAIRED BY MORSE
IN EUROPE, MEMBERSHIP TO INCLUDE US, UK, FRANCE,
GERMANY, JAPAN, AND CANADA.
8. SOURCE SAID IN RECENT CURRENCY CRISIS, BOTH HEATH
AND BRANDT AT ONE POINT FELT THEY COULD REACH AGREEMENT
ON TERMS OF AN EC JOINT FLOAT AND LEAPFROG OR
TELESCOPE THE ENTIRE PROCESS OF EUROPEAN MONETARY
INTEGRATION BY SEVERAL YEARS. AS IS KNOWN, THIS FAILED.
UK GRATEFUL HOWEVER THAT DURING EC FINANCE MINISTERS

CONFERENCE, GERMANY SUGGESTED THAT EC AS A WHOLE SHOULD
GUARANTEE STERLING LIABILITIES. OTHER EC MEMBERS
WOULD NOT AGREE.

9. UK TREASURY STAFF BELIEVE MONETARY CRISIS HAS BEEN
USEFUL IN FORCING CONTINENTAL COUNTRIES TO FACE REALITY,
INCLUDING POSSIBILITY THAT THEIR CURRENCIES MIGHT EVEN
FINALLY BE USED AS RESERVES. UK TREASURY STAFF ALSO
ANXIOUS TO SEE HOW FRENCH WILL REACT IF FRANC WINDS UP
AT THE BOTTOM OF THE SNAKE. FOR THE UK, SOURCE SEES
NO SIGN OF ANYTHING BUT CONTINUED FLOATING.

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*** Current Handling Restrictions *** LIMDIS
*** Current Classification *** CONFIDENTIAL

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 20 MAR 1973
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: worrelsw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LONDON03304
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: XS
Errors: n/a
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730333/aaaaibga.tel
Line Count: 192
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: worrelsw
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26-Jul-2001 by izenbei0>; APPROVED <24-Aug-2001 by worrelsw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> srp 971216
Subject: UK POSITION ON C-20 MEETINGS
TAGS: EFIN, UK
To: EB
SECSTATE WASHDC INFO BONN
EC BRUSSELS
MULTIPLE
OECD PARIS
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

